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What's Behind America's Shocking Baby-Formula Shortage?

Bacteria, a virus, a trade policy—and a lesson

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America's baby-formula shortage has gone from curious inconvenience to full-blown national crisis.

In many states, including Texas and Tennessee, more than half of formula is sold out in stores. Nationwide, 40 percent of formula is out of stock—a twentyfold increase since the first half of 2021. As parents have started to stockpile formula, retailers such as Walgreens, CVS, and Target have all moved to limit purchases.

The everything shortage isn't new. But rationing essentials for desperate parents? That's a twisted turn in the story of American scarcity.

Three factors are driving the U.S. baby-formula shortage: bacteria, a virus, and a trade policy.

First, the bacteria. After the recent deaths of at least two infants from a rare infection, the Food and Drug Administration investigated Abbott, a major producer of infant formula, and discovered traces of the pathogen *Cronobacter sakazakii* in a Michigan plant. As a result, the FDA recalled several brands of formula, and parents were advised to not buy or use some formula tied to the plant.

Recalls are common. Thousands of drugs and products are recalled every year, and they don't create a meltdown at pharmacies or require CVS to institute Soviet-style rationing of essentials. So something else is going on here.

That brings us to the second cause: the virus. The pandemic has snarled all sorts of supply chains, but I can't think of a market it's yanked around more than infant formula. "During the spring of 2020, formula sales rocketed upwards as people stockpiled formula just like they stockpiled toilet paper," Lyman Stone, the director of research at the consulting firm Demographic Intelligence, told me. Then, as "families worked through their stockpiles, sales fell a lot. This oscillation made planning for production extremely difficult. It was complicated to get an idea of the actual market size." Meanwhile, Stone's research has found that an uptick in births in early 2022 has corresponded with a "very dramatic decline in rates of breastfeeding" among new mothers, which pushed up demand for formula once again.

In brief: Demand for formula surged as parents hoarded in 2020; then demand fell, leading suppliers to cut back production through 2021; and now, with more new mothers demanding more formula in 2022, orders are surging faster than supply is recovering.

Finally, the third factor: America's regulatory and trade policy. And while that might not sound as interesting to most people as bacteria and viruses, it might be the most important part of the story.

FDA regulation of formula is so stringent that most of the stuff that comes out of Europe is illegal to buy here due to technicalities like labeling requirements. Nevertheless, one study found that many European formulas meet the FDA nutritional guidelines—and, in some ways, might even be better than American formula, because the European Union bans certain sugars, such as corn syrup, and requires formulas to have a higher share of lactose.

Some parents who don't care about the FDA's imprimatur try to circumvent regulations by ordering formula from Europe through third-party vendors. But U.S. customs agents have been known to seize shipments at the border.

U.S. policy also restricts the importation of formula that *does* meet FDA requirements. At high volumes, the tax on formula imports can exceed 17 percent. And under President Donald Trump, the U.S. entered into a new North American trade agreement that actively discourages formula imports from our largest trading partner, Canada.

America's formula policy warps the industry in one more way. The Department of Agriculture has a special group called WIC—short for Special Supplemental Nutrition Program for Women, Infants, and Children—that provides a variety of services to pregnant and breastfeeding women and their young children. It is also the largest purchaser of infant formula in the United States, awarding contracts to a small number of approved formula companies. As a result, the U.S. baby formula industry is minuscule, by design. A 2011 analysis by USDA reported that three companies accounted for practically all U.S. formula sales: Abbott, Mead Johnson, and Gerber.

The Biden administration is focused on expanding domestic manufacturing of formula to meet families' needs. But the bigger problem is our trade policy. "The U.S. is a captive market for domestic dairy producers like Abbott, and during times of crisis, the lack of alternative supplies becomes a pretty big problem," Scott Lincicome, the director of general economics and trade for the Cato Institute, a libertarian think tank, told me.

Conservative populists and even liberals who are skeptical of globalization sometimes argue that if the U.S. made everything within our borders, our economy would be more resilient. But the baby-formula shortage suggests that things don't always work out that way. Instead, we're seeing what happens when we reduce trade with other countries for an essential good: We're more vulnerable to emergencies like a bacteria-infested plant in Michigan.

There is a better way. "What we should want to maximize is total global capacity and system-wide flexibility and dynamism," Lincicome said. "The location of the supply doesn't matter as much as having as much as possible within a nimble system that can replace one plant's supply with another's."

America's reasonable instinct to protect infants has metastasized into an unreasonably protectionist trade policy that makes the U.S. formula market exquisitely sensitive to existential

shocks (like a pandemic) and domestic shocks (like a major recall). Today, the shocks are everywhere, and that's why baby formula is not.